

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input checked="" type="checkbox"/> City <input type="checkbox"/> Twp <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Unit Name City of Harbor Springs	County Emmet
Fiscal Year End 12/31/06	Opinion Date 05/15/07	Date Audit Report Submitted to State 06/28/07	

We affirm that:

We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

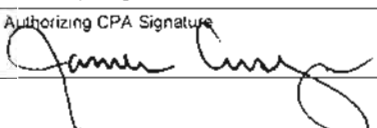
YES
NO

Check each applicable box below. (See instructions for further detail.)

1. ☒ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
2. ☒ ☐ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
3. ☒ ☐ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
4. ☒ ☐ The local unit has adopted a budget for all required funds
5. ☒ ☐ A public hearing on the budget was held in accordance with State statute
6. ☒ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
7. ☒ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
8. ☐ ☒ The local unit only holds deposits/investments that comply with statutory requirements.
9. ☒ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
10. ☒ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
11. ☒ ☐ The local unit is free of repeated comments from previous years.
12. ☒ ☐ The audit opinion is UNQUALIFIED.
13. ☒ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
14. ☒ ☐ The board or council approves all invoices prior to payment as required by charter or statute.
15. ☒ ☐ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission

I, the undersigned, certify that this statement is complete and accurate in all respects

We have enclosed the following	Enclosed	Not Required (enter a brief justification)	
Financial Statements	<input checked="" type="checkbox"/>		
The letter of Comments and Recommendations	<input type="checkbox"/>	NCN	
Other (Describe)	<input type="checkbox"/>		
Certified Public Accountant (Firm Name) Hill, Schroderus & Co., LLP		Telephone Number 231-347-4136	
Street Address 923 Spring Street		City Petoskey	State MI
Zip 49770			
Authorizing CPA Signature 		Printed Name James Cusenza	License Number 01110024

**FINANCIAL REPORT
CITY OF HARBOR SPRINGS
December 31, 2006**

**CITY OF HARBOR SPRINGS
FINANCIAL REPORT
December 31, 2006**

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May 15, 2007

Independent Auditors' Report

Honorable Mayor, Members of
City Council and City Manager
City of Harbor Springs, Michigan

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the City of Harbor Springs, Michigan (the City), as of and for the year ended December 31, 2006, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the City of Harbor Springs, as of December 31, 2006, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis and budgetary comparison information, as listed in the table of contents, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Harbor Springs' basic financial statements. The other supplemental information, as listed in the table of contents, is presented for purpose of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Hill, Schroderus & Co.

CERTIFIED PUBLIC ACCOUNTANTS
Petoskey, Michigan

The City of Harbor Springs

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Frederick W. Geuder, City Manager
Ronald S. McRae, City Clerk/Comptroller/Treasurer
Daniel J. Branson, Chief of Police

Jean Jardine, Mayor
Laura Kors, Mayor Pro-tem
James C. Grogan, Council Member
Michael K. Heinz, Council Member
Dennis Wiggins, Council Member

MANAGEMENT'S DISCUSSION AND ANALYSIS

As management of the City of Harbor Springs, we offer readers of the City's financial statements this narrative overview and analysis of the financial activities of the City for the year ended December 31, 2006.

FINANCIAL HIGHLIGHTS:

Our overall financial status improved during the last year. Total net assets increased \$410,837 from \$14,073,058 in 2005 to \$14,483,895 in 2006. Net assets for the Government Activities Funds total \$6,519,804, which is an increase of \$421,661 from the previous year. Net assets for the Business – Type Activities Funds total \$7,964,091, which is a decrease of \$10,824 from the previous year.

Governmental activities expenses for the year were \$1,803,462. These activities generated \$182,642 in charges for services, as well as \$189,555 in operating grants and contributions. Property taxes of \$1,275,296, business activities transfers of \$293,009, state shared revenues of \$114,335, interest and investment earnings of \$138,176 and other general revenues of \$32,110 provided additional support for the governmental activities.

Business activities operating revenues for the year were \$5,043,369 and operating expenses were \$4,913,156. Interest and investment earnings were \$149,328 and other revenues were \$2,644. Transfers to governmental activities were \$293,009, made from net revenues and existing assets.

OVERVIEW OF THE FINANCIAL STATEMENTS:

The discussion and analysis is intended to serve as an introduction to the City's basic financial statements. The City's basic financial statements are comprised of three components: 1) government wide financial statements, 2) fund financial statements and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

GOVERNMENT – WIDE FINANCIAL STATEMENTS:

The government-wide financial statements are designed to provide readers with a broad overview of the City's finances in a manner similar to a private-sector business.

The Statement of Net Assets presents information on all of the City's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The Statement of Activities presents information showing how the City's net assets changed during the year. All changes in net assets are reported when the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus revenues and expenses are reported in this statement for some items that will only result in cash flows in the future periods.

Both of the government-wide financial statements distinguish functions of the City that are principally supported by taxes and intergovernmental revenues (governmental activities) from functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). The governmental activities of the City include general government and administration, public safety, public works and recreation and cultural activities. The business-type activities of the City include electric, water and sewer and waterfront operations.

FUND STATEMENTS:

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. All of the funds of the City can be divided into two categories – governmental funds and proprietary funds.

Government funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund statements focus on current sources and uses of spendable resources, as well as on balances of spendable resources available at the end of the year. Such information may be useful in evaluating a government's near-term financing requirements.

The City maintains two types of proprietary funds. Enterprise funds are used to report the same functions as business-type activities in the government-wide financial statements. Internal service funds are an accounting device used to accumulate and allocate costs internally among the City's various functions. The City uses its internal service fund to account for motor vehicle and equipment usage. Because these services predominately benefit governmental rather than business-type functions, they have been included within governmental activities in the government-wide financial statements.

FIDUCIARY FUNDS:

The City is a trustee or fiduciary for assets that are being held for the benefit of third parties. Since these funds cannot be used to address activities or obligations of the City, these funds do not appear in the government-wide financial statements.

NOTES TO THE FINANCIAL STATEMENTS:

The notes provide additional information which is essential to a full understanding of the data provided in the government-wide and fund financial statements.

GOVERNMENT – WIDE FINANCIAL ANALYSIS:

The Schedule of Net Assets, page iv, summarizes the City's net assets as of December 31, 2006.

At the end of the year, the City of Harbor Springs is able to report positive balances in all three categories of net assets. The largest portion of the City's net assets is its investment in capital assets (land, buildings, equipment, improvements, construction in progress and infrastructure), less any related debt used to acquire those assets that is still outstanding.

The second portion of net assets, restricted net assets represents resources that are subject to external restrictions on how they may be used. This would include restrictions for the Police Department and development fee payback. These restricted assets do not include those designated internally for specific purposes by City Council. The City Council had designated \$35,000 in 2005 and in 2006 for a total of \$70,000 to pay the City's share of a proposed Fire Station to be constructed at the Little Traverse Township Hall site. Another \$15,000 has been designated for this purpose in 2007.

The remaining portion of net assets, unrestricted net assets, may be used at the City's discretion to meet on going obligations as well as those designated internally for specific purposes. The proposed Fire Station is the only purpose for which the City Council has formally designated funds for.

The Schedule of Change in Net Assets, page v, summarizes the City's Statement of Activities. The City incurred approximately \$1.8 million in governmental expenses. These expenses were funded primarily with property taxes (71%), operating grants and contributions (10%, mostly for the Street Funds), transfers from the Electric, Water and Sewer and Waterfront Funds (16%) and charges for services (10%).

Business-type activities had an increase in net assets before transfers to government activities of \$282,185. Combined business-type and government activities net assets experienced a 3% increase during the year.

CITY OF HARBOR SPRINGS

SCHEDULE OF NET ASSETS
December 31, 2006

Description	Governmental Activities		Business Type Activities		Total Primary Government	
	2006	2005	2006	2005	2006	2005
Assets						
Current and other assets	3,582,657	3,134,587	4,475,673	4,335,541	8,058,330	7,470,128
Capital assets, net of accum. dep.	4,482,270	4,615,324	4,065,682	4,313,485	8,547,952	8,928,809
Total Assets	8,064,927	7,749,911	8,541,355	8,649,026	16,606,282	16,398,937
Liabilities						
Current	243,499	214,452	420,684	478,287	664,183	692,739
Non-current	1,301,624	1,437,316	156,580	195,824	1,458,204	1,633,140
Total liabilities	1,545,123	1,651,768	577,264	674,111	2,122,387	2,325,879
Net Assets						
Invested in capital assets, net of related debt	3,094,162	3,123,939	3,985,682	4,193,485	7,079,844	7,317,424
Restricted	28,620	31,792	16,000	20,750	44,620	52,542
Unrestricted	3,397,022	2,942,412	3,962,409	3,760,680	7,359,431	6,703,092
Total net assets	6,519,804	6,098,143	7,964,091	7,974,915	14,483,895	14,073,058

CITY OF HARBOR SPRINGS

SCHEDULE OF NET ASSETS

December 31, 2006

Description	Governmental Activities		Business Type Activities		Total Primary Government	
	2006	2005	2006	2005	2006	2005
Revenues						
Program Revenues:						
Charges for Services	182,642	177,514	5,043,369	4,981,612	5,226,011	5,159,126
Operating grants and contributions	189,555	217,246	0	0	189,555	217,246
Capital grants and contributions	0	0	2,020	10,323	2,020	10,323
General Revenues:					0	0
Property Taxes	1,275,296	1,197,911	0	0	1,275,296	1,197,911
State-shared Revenues	114,335	141,132	0	0	114,335	141,132
Interest and Investment Earnings	138,176	83,298	149,328	92,570	287,504	175,868
Miscellaneous	32,110	65,404	624	0	32,734	65,404
Total revenues	<u>1,932,114</u>	<u>1,882,505</u>	<u>5,195,341</u>	<u>5,084,505</u>	<u>7,127,455</u>	<u>6,967,010</u>
Expenses						
General Government	165,656	136,748	0	0	165,656	136,748
Public Safety	778,793	732,193	0	0	778,793	732,193
Public Works	485,244	476,909	0	0	485,244	476,909
Recreation and Cultural	206,389	230,243	0	0	206,389	230,243
Other	42,310	31,059	0	0	42,310	31,059
Interest on long-term debt	54,810	69,544	0	0	54,810	69,544
Unallocated Depreciation	70,260	13,496	0	0	70,260	13,496
Electric	0	0	3,362,138	3,211,276	3,362,138	3,211,276
Water and sewer	0	0	1,089,794	1,078,626	1,089,794	1,078,626
Waterfront	0	0	461,224	384,873	461,224	384,873
Total expenses	<u>1,803,462</u>	<u>1,690,192</u>	<u>4,913,156</u>	<u>4,674,775</u>	<u>6,716,618</u>	<u>6,364,967</u>
Change in net assets before transfers	128,652	192,313	282,185	409,730	410,837	602,043
Transfers	<u>293,009</u>	<u>263,632</u>	<u>(293,009)</u>	<u>(263,632)</u>	<u>0</u>	<u>0</u>
Change in net assets	421,661	455,945	(10,824)	146,098	410,837	602,043
Net assets - Beginning of Year	<u>6,098,143</u>	<u>5,642,198</u>	<u>7,974,915</u>	<u>7,828,817</u>	<u>14,073,058</u>	<u>13,471,015</u>
Net assets - End of Year	<u>6,519,804</u>	<u>6,098,143</u>	<u>7,964,091</u>	<u>7,974,915</u>	<u>14,483,895</u>	<u>14,073,058</u>

FUND ANALYSIS:

At the end of the year, the governmental funds reported a combined fund balance of \$2,790,105, which was \$276,665 higher than at the beginning of the year. The City did under take some small projects and several sidewalk projects during the year of approximately \$64,000. About \$13,000 was spent to update the City's computer system to connect the Police Department and the City Hall together on a single server and to provide a back up server.

The proprietary funds net assets decreased \$10,824 to \$7,964,091. The Electric Fund generated income before transfers and capital contributions of \$360,137 while the Water and Sewer Fund incurred a \$68,888 loss before transfers and the Waterfront Fund incurred an \$11,084 loss.

General Fund budgetary highlights are that the actual results varied 7.5% favorably from the budgetary plan. An unreserved ending fund balance was of \$1,349,900 was budgeted. The ending unreserved fund balance actually was \$1,451,010. The Schedule presented as required supplementary information indicates an actual fund balance of \$1,541,700, which includes \$62,070 reserved for inventories and prepaid expenses and \$28,620 reserved for the Police Department. Overall expenditures were \$95,732 less than budgeted. An amount of \$35,000 was budgeted as an expenditure for the City's share of the proposed fire station. No actual expenditure was made for this purpose during the year. It is considered internally designated for this purpose in the future.

CAPITAL ASSET AND LONG-TERM DEBT ACTIVITY

At the end of the year the capital assets, net of accumulated depreciation and long-term debt were:

Capital Assets

Governmental Activities:	\$4,482,270
Business-type Activities:	\$4,065,682

Long-Term Debt:

Governmental Activities:	\$1,301,624
Business-type Activities:	\$156,580

Major capital activity during the year included sidewalk projects, additional work on the Zoll Street Building Project, Utility Rate Studies, and the study of the City's Electrical Distribution System.

There was no major debt activity during the year. Existing debt service payments were made timely.

KNOWN FACTORS AFFECTING FUTURE OPERATIONS:

The spread between the millage rate levied by the City and the maximum millage rate permitted under the Headlee Amendment continues to shrink. In order to maintain the current level of services provided through the General Fund, the City may need to look at alternative sources of revenue or an override of the Headlee Amendment. The other alternative would be a reduction in services and/or personnel. The City Manager initiated a discussion of those ideas in his annual budget message for 2007, but no conclusions have been reached.

Following rate studies for the water, sewer and electric utilities, the City adopted increased rates in all of those areas in the spring of 2007. It is recommended that the City re-examine rates in about two years in order to minimize potential impacts of waiting too long.

As a member of the Harbor Springs Area Fire Authority, the City is participating in the construction of a sub-station for the Fire Department. Construction estimates came in at a better than expected cost, so no additional contributions for the sub-station are anticipated after 2007. New equipment purchases by the Authority have been assisted by grants, so that the financial impact on all Authority participants will be less than anticipated.

The City Staff will continue to examine street repair and construction needs and will suggest priorities to City Council. Historically, the City has not borrowed funds for street construction, and it is anticipated that current and accumulated funds will pay for street construction. Where water and sewer main repairs are needed, those funds will come from the Water and Sewer Fund.

As anticipated, the City took delivery of a bucket truck for use by the Electric Department in early 2007 (ordered in 2006). The City Council has authorized the purchase of a new snow plow vehicle with an anticipated fall 2007 delivery date.

CITY OF HARBOR SPRINGS
Statement of Net Assets
December 31, 2006

<u>Assets</u>	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
Current Assets			
Cash	\$ 3,075,044	\$ 3,092,245	\$ 6,167,289
Investments	84,833	-	84,833
Receivables:			
Accounts	4,017	724,169	728,186
Interest	11,778	12,160	23,938
Due from fiduciary funds	88,617	205	88,822
Due (to) from other funds	12,587	(12,587)	-
Due from other governmental units	214,464	-	214,464
Inventories	19,327	324,951	344,278
Prepaid expenses	54,825	25,317	80,142
Total current assets	<u>3,565,492</u>	<u>4,166,460</u>	<u>7,731,952</u>
Noncurrent Assets			
Restricted assets:			
Customer deposits	-	116,580	116,580
Bond covenants	-	56,400	56,400
MPPA working capital advance	-	136,233	136,233
Deferred charges	17,165	-	17,165
Capital assets - net of depreciation	4,482,270	4,065,682	8,547,952
Total noncurrent assets	<u>4,499,435</u>	<u>4,374,895</u>	<u>8,874,330</u>
Total assets	<u>\$ 8,064,927</u>	<u>\$ 8,541,355</u>	<u>\$ 16,606,282</u>
<u>Liabilities and Net Assets</u>			
Current Liabilities			
Accounts payable	\$ 53,976	\$ 300,538	\$ 354,514
Accrued expenses	26,259	38,825	65,084
Due to other governmental units	26,703	41,321	68,024
Accrued interest	8,995	-	8,995
Payable from restricted assets:			
Current portion of bonds payable	-	40,000	40,000
Bonds payable, due within one year	127,566	-	127,566
Total current liabilities	<u>243,499</u>	<u>420,684</u>	<u>664,183</u>
Noncurrent Liabilities			
Payable from restricted assets:			
Customer deposits	-	116,580	116,580
Compensated absences payable	23,917	-	23,917
Bonds payable, net	1,277,707	40,000	1,317,707
Total noncurrent liabilities	<u>1,301,624</u>	<u>156,580</u>	<u>1,458,204</u>
Total liabilities	<u>1,545,123</u>	<u>577,264</u>	<u>2,122,387</u>
Net Assets			
Invested in capital assets, net of related debt	3,094,162	3,985,682	7,079,844
Restricted for:			
Police department	28,620	-	28,620
Development fee payback	-	16,000	16,000
Unrestricted	3,397,022	3,962,409	7,359,431
Total net assets	<u>6,519,804</u>	<u>7,964,091</u>	<u>14,483,895</u>
Total liabilities and net assets	<u>\$ 8,064,927</u>	<u>\$ 8,541,355</u>	<u>\$ 16,606,282</u>

See accompanying notes to the basic financial statements. 2

CITY OF HARBOR SPRINGS
Statement of Activities
For the Year Ended December 31, 2006

Functions/Programs	Program Revenues				Net (Expense) Revenue and Changes in Net Assets		
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Total
Primary Government							
Governmental activities:							
General government	\$ 165,656	\$ 14,157	\$ 902	\$ -	\$ (150,597)	\$ -	\$ (150,597)
Public safety	778,793	139,329	-	-	(639,464)	-	(639,464)
Public works	485,244	-	183,527	-	(301,717)	-	(301,717)
Recreation and cultural	206,389	29,156	5,126	-	(172,107)	-	(172,107)
Other	42,310	-	-	-	(42,310)	-	(42,310)
Interest on long-term debt	54,810	-	-	-	(54,810)	-	(54,810)
Unallocated depreciation	70,260	-	-	-	(70,260)	-	(70,260)
Total governmental activities	1,803,462	182,642	189,555	-	(1,431,265)	-	(1,431,265)
Business-type activities:							
Electric	3,362,138	3,648,031	-	-	-	285,893	285,893
Water and sewer	1,089,794	970,165	-	2,020	-	(117,609)	(117,609)
Waterfront	461,224	425,173	-	-	-	(36,051)	(36,051)
Total business-type activities	4,913,156	5,043,369	-	2,020	-	132,233	132,233
Total primary government	\$ 6,716,618	\$ 5,226,011	\$ 189,555	\$ 2,020	(1,431,265)	132,233	(1,299,032)
General revenues:							
Property taxes					1,275,296	-	1,275,296
State-shared revenues					114,335	-	114,335
Interest and investment earnings					138,176	149,328	287,504
Miscellaneous					32,110	624	32,734
Transfers					293,009	(293,009)	-
Total general revenues and transfers					1,852,926	(143,057)	1,709,869
Change in net assets					421,661	(10,824)	410,837
Net assets - beginning of year					6,098,143	7,974,915	14,073,058
Net assets - end of year					\$ 6,519,804	\$ 7,964,091	\$14,483,895

See accompanying notes to the basic financial statements.

CITY OF HARBOR SPRINGS
Balance Sheet
Governmental Funds
December 31, 2006

<u>Assets</u>	General	Major Street	Local Street	Other Nonmajor Governmental Funds	Total Governmental Funds
Cash	\$1,174,361	\$ 90,113	\$ 984,626	\$ 96,396	\$ 2,345,496
Investments	-	-	-	84,833	84,833
Receivables:					
Accounts	602	-	-	287	889
Accrued interest	5,054	343	3,668	359	9,424
Due from other funds	191,697	616	-	418	192,731
Due from other governmental units	183,753	24,344	6,367	-	214,464
Inventories	11,721	-	-	7,606	19,327
Prepaid expenditures	50,349	306	145	319	51,119
Total assets	\$1,617,537	\$ 115,722	\$ 994,806	\$ 190,218	\$ 2,918,283
<u>Liabilities and Fund Balances</u>					
Liabilities					
Accounts payable	\$ 26,438	\$ -	\$ -	\$ 16,673	\$ 43,111
Accrued expenditures	19,259	901	391	469	21,020
Due to other funds	3,437	4,580	3,658	25,669	37,344
Due to other governmental units	26,703	-	-	-	26,703
Total liabilities	75,837	5,481	4,049	42,811	128,178
Fund balances					
Reserved for:					
Inventories and prepaids	62,070	306	145	7,925	70,446
Police department	28,620	-	-	-	28,620
Unreserved	1,451,010	109,935	990,612	139,482	2,691,039
Total fund balances	1,541,700	110,241	990,757	147,407	2,790,105
Total liabilities and fund balances	\$1,617,537	\$ 115,722	\$ 994,806	\$ 190,218	\$ 2,918,283

CITY OF HARBOR SPRINGS
Reconciliation of Governmental Funds Balance Sheet to the
Statement of Net Assets
December 31, 2006

Total Fund Balance - Governmental Funds	\$	2,790,105
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Amounts reported for governmental activities in the statement of net assets are different because:

Governmental funds report capital outlays as expenditures. However, in the statement of net assets, these assets are capitalized and depreciated over their estimated useful lives. Includes capital assets of Internal Service Fund.

Governmental capital assets		9,350,977
Accumulated depreciation		(4,868,707)

Governmental funds report interest when due, whereas in the statement of net assets, interest is accrued on outstanding bonds.		(8,995)
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Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the governmental funds. Includes Internal Service Fund.

Governmental bonds payable		(1,405,273)
Compensated absences		(23,917)

Internal service funds are used to charge costs of certain activities, such as motor vehicle usage, to various departments within the City. The assets and liabilities of the Internal Service Fund are included in government activities in the statement of net assets.

Internal Service Fund balances not included in other reconciling items:

Current assets		738,736
Deferred charges		17,165
Accounts payable, accrued expenses and due to other funds		(70,287)

Net Assets of Governmental Activities	\$	6,519,804
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CITY OF HARBOR SPRINGS
Statement of Revenues, Expenditures, and Changes In Fund Balances
Governmental Funds
For the Year Ended December 31, 2006

	General	Major Street	Local Street	Other Nonmajor Governmental Funds	Total Governmental Funds
Revenues					
Taxes	\$ 1,275,296	\$ -	\$ -	\$ -	\$ 1,275,296
Licenses and permits	10,394	-	-	-	10,394
State grants	114,335	141,034	42,493	-	297,862
Charges for services	166,180	-	-	2,305	168,485
Fines and forfeits	3,763	-	-	-	3,763
Interest and investment earnings	55,831	3,193	39,641	15,508	114,173
Other	25,656	303	303	902	27,164
Total revenues	1,651,455	144,530	82,437	18,715	1,897,137
Expenditures					
Current:					
General government	232,625	-	-	-	232,625
Public safety	775,903	-	-	2,890	778,793
Public works	315,745	117,320	112,728	-	545,793
Recreation and cultural	186,452	-	-	19,937	206,389
Other	42,310	-	-	-	42,310
Capital outlay	-	-	-	37,562	37,562
Total expenditures	1,553,035	117,320	112,728	60,389	1,843,472
Excess (deficiency) of revenues over expenditures	98,420	27,210	(30,291)	(41,674)	53,665
Other financing sources (uses)					
Operating transfers in	248,669	-	150,000	26,280	424,949
Operating transfers out	(176,280)	-	-	(25,669)	(201,949)
Total other financing sources (uses)	72,389	-	150,000	611	223,000
Net change in fund balances	170,809	27,210	119,709	(41,063)	276,665
Fund balances - beginning of year	1,370,891	83,031	871,048	188,470	2,513,440
Fund balances - end of year	<u>\$ 1,541,700</u>	<u>\$ 110,241</u>	<u>\$ 990,757</u>	<u>\$ 147,407</u>	<u>\$ 2,790,105</u>

CITY OF HARBOR SPRINGS
Reconciliation of the Statement of Revenues, Expenditures, and
Changes In Fund Balances of Governmental Funds to the
Statement of Activities
For the Year Ended December 31, 2006

Net Change In Fund Balances - Total Governmental Funds **\$ 276,665**

Amounts reported for governmental activities in the statement of activities
are different because:

Governmental funds report capital outlays as expenditures. However,
in the statement of activities, the cost of these assets is allocated over
their estimated useful lives as depreciation.

Expenditures for capital assets	76,994
Current year depreciation	(70,260)

Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets. This is the amount of principal paid on long-term debt.	25,000
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Interest on long-term debt is recognized as an expenditure when it is due in the governmental funds. However, in the statement of activities, interest expense is recognized as the interest accrues, regardless of when it is due.	166
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Compensated absences are recognized as an expenditure when it is paid in the governmental funds. In the statement of activities, however, compensated absences are recognized as an expense when earned.	8,126
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Internal service funds are used to charge costs of certain activities, such as insurance and motor vehicle usage, to various departments within the City. The net revenue (expense) of the internal service funds are included in governmental activities in the statement of activities.	104,977
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Change In Net Assets of Governmental Activities	<u>\$ 421,668</u>
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CITY OF HARBOR SPRINGS
Statement of Net Assets
Proprietary Funds
December 31, 2006

	Business-Type Activities - Enterprise Funds				Governmental Activities - Internal Service Fund
	Electric System	Water and Sewer System	Waterfront	Totals Current Year	
<u>Assets</u>					
Current Assets					
Cash	\$ 1,584,131	\$ 1,108,470	\$ 399,644	\$ 3,092,245	\$ 729,548
Receivables:					
Accounts	617,518	106,651	-	724,169	3,128
Accrued interest	6,124	4,133	1,903	12,160	2,354
Due from other funds	9,380	16,937	-	26,317	-
Inventories	279,457	45,494	-	324,951	-
Prepaid expenses	17,286	6,619	1,412	25,317	3,706
Total current assets	2,513,896	1,288,304	402,959	4,205,159	738,736
Noncurrent Assets					
Restricted assets:					
Customer deposits	68,835	14,750	32,995	116,580	-
Bond covenants	-	-	56,400	56,400	-
MPPA working capital advance	136,233	-	-	136,233	-
Deferred charges	-	-	-	-	17,165
Capital assets	4,329,308	2,235,643	2,053,844	8,618,795	2,475,852
Less: accumulated depreciation	(2,299,933)	(1,273,484)	(979,696)	(4,553,113)	(1,238,930)
Total noncurrent assets	2,234,443	976,909	1,163,543	4,374,895	1,254,087
Total assets	\$ 4,748,339	\$ 2,265,213	\$ 1,566,502	\$ 8,580,054	\$ 1,992,823

CITY OF HARBOR SPRINGS
Statement of Net Assets
Proprietary Funds
(Continued)
December 31, 2006

	Business-Type Activities - Enterprise Funds				Governmental Activities - Internal Service Fund
	Electric System	Water and Sewer System	Waterfront	Totals Current Year	
<u>Liabilities and Net Assets</u>					
Current Liabilities					
Accounts payable	\$ 282,841	\$ 5,421	\$ 12,276	\$ 300,538	\$ 10,865
Accrued expenses	14,095	23,503	1,227	38,825	5,239
Due to other funds	33,556	261	4,882	38,699	54,183
Due to other governmental units	-	41,321	-	41,321	-
Bonds payable due within one year	-	-	-	-	77,566
Total current liabilities	330,492	70,506	18,385	419,383	147,853
Current Liabilities (payable from restricted assets)					
Current portion of bonds payable	-	-	40,000	40,000	-
Noncurrent Liabilities					
Payable from restricted assets:					
Customer deposits	68,835	14,750	32,995	116,580	-
Bonds payable (net of current portion, unamortized premiums, issuance costs, and deferred amount on refunding)	-	-	40,000	40,000	302,707
Total noncurrent liabilities	68,835	14,750	72,995	156,580	302,707
Total liabilities	399,327	85,256	131,380	615,963	450,560
Net Assets					
Invested in capital assets, net of related debt	2,029,375	962,159	994,148	3,985,682	856,649
Restricted for development fee payback	16,000	-	-	16,000	-
Unrestricted	2,303,637	1,217,798	440,974	3,962,409	685,614
Total net assets	4,349,012	2,179,957	1,435,122	7,964,091	1,542,263
Total liabilities and net assets	\$ 4,748,339	\$ 2,265,213	\$ 1,566,502	\$ 8,580,054	\$ 1,992,823

CITY OF HARBOR SPRINGS
Statement of Revenues, Expenses, and Changes In Fund Net Assets
Proprietary Funds
For the Year Ended December 31, 2006

	Business-Type Activities - Enterprise Funds				Governmental Activities - Internal Service Fund
	Electric System	Water and Sewer System	Waterfront	Totals Current Year	
Operating revenues					
Charges for services	\$ 3,648,031	\$ 962,085	\$ 425,173	\$ 5,035,289	\$ 388,623
Operating expenses					
Purchased power	2,219,422	-	-	2,219,422	-
Personal services	432,319	224,205	108,359	764,883	41,095
Contractual services	435,841	704,450	227,235	1,367,526	103,770
Other supplies and expenses	92,625	90,661	17,225	200,511	59,154
Heat, light and power	35,662	25,745	20,464	81,871	9,332
Depreciation	146,269	44,733	79,541	270,543	144,028
Total operating expenses	3,362,138	1,089,794	452,824	4,904,756	357,379
Operating income (loss)	285,893	(127,709)	(27,651)	130,533	31,244
Nonoperating revenues					
Interest	74,244	50,741	24,343	149,328	24,003
Development fees	-	8,080	-	8,080	-
Miscellaneous	-	-	624	624	813
Total nonoperating revenues	74,244	58,821	24,967	158,032	24,816
Nonoperating expenses					
Interest	-	-	8,400	8,400	21,092
Total nonoperating revenues (expenses)	74,244	58,821	16,567	149,632	3,724
Income (loss) before operating transfers and capital contributions	360,137	(68,888)	(11,084)	280,165	34,968
Other financing sources (uses)					
Operating transfers in	-	-	-	-	70,009
Operating transfers out	(273,006)	(20,003)	-	(293,009)	-
Total other financing sources (uses)	(273,006)	(20,003)	-	(293,009)	70,009
Capital contributions	-	2,020	-	2,020	-
Change in net assets	87,131	(86,871)	(11,084)	(10,824)	104,977
Total net assets - beginning	4,261,881	2,266,828	1,446,206	7,974,915	1,437,286
Total net assets - ending	\$ 4,349,012	\$ 2,179,957	\$ 1,435,122	\$ 7,964,091	\$ 1,542,263

CITY OF HARBOR SPRINGS
Statement of Cash Flows
Proprietary Funds
For the Year Ended December 31, 2006

	<u>Business-Type Activities - Enterprise Funds</u>				<u>Governmental Activities - Internal Service Fund</u>
	<u>Electric System</u>	<u>Water and Sewer System</u>	<u>Waterfront</u>	<u>Totals Current Year</u>	
Cash flows from operating activities					
Receipts from customers	\$ 3,694,575	\$ 965,258	\$ 428,138	\$ 5,087,971	\$ 387,966
Payments to suppliers	(2,825,763)	(822,858)	(250,077)	(3,898,698)	(118,465)
Payments to employees	(437,856)	(226,888)	(108,312)	(773,056)	(40,254)
Net cash provided (used) by operating activities	<u>430,956</u>	<u>(84,488)</u>	<u>69,749</u>	<u>416,217</u>	<u>229,247</u>
Cash flows from non-capital financing activities					
Operating transfers-in from other funds	-	-	-	-	70,009
Operating transfers-out to other funds	(273,006)	(20,003)	-	(293,009)	-
Net cash provided (used) by non-capital financing activities	<u>(273,006)</u>	<u>(20,003)</u>	<u>-</u>	<u>(293,009)</u>	<u>70,009</u>
Cash flows from capital and related financing activities					
Acquisition and construction of capital assets and contracts payable	(17,114)	-	(5,626)	(22,740)	(4,247)
Principal paid on bonds	-	-	(40,000)	(40,000)	(85,000)
Interest paid on bonds	-	-	(8,400)	(8,400)	(15,006)
Development fees	-	8,080	-	8,080	-
Capital contributed by customers	-	2,020	-	2,020	-
Net cash provided by miscellaneous non-operating activities	-	-	624	624	813
MPPA working capital advance	(53,941)	-	-	(53,941)	-
Net cash provided (used) for capital and related financing activities	<u>(71,055)</u>	<u>10,100</u>	<u>(53,402)</u>	<u>(114,357)</u>	<u>(103,440)</u>
Cash flows from investing activities					
Interest received	<u>86,971</u>	<u>54,634</u>	<u>27,808</u>	<u>169,413</u>	<u>27,543</u>
Net cash provided (used) from investing activities	<u>86,971</u>	<u>54,634</u>	<u>27,808</u>	<u>169,413</u>	<u>27,543</u>
Net increase (decrease) in cash	<u>173,866</u>	<u>(39,757)</u>	<u>44,155</u>	<u>178,264</u>	<u>223,359</u>
Cash, beginning	<u>1,479,100</u>	<u>1,162,977</u>	<u>444,884</u>	<u>3,086,961</u>	<u>506,189</u>
Cash, ending	<u>\$ 1,652,966</u>	<u>\$ 1,123,220</u>	<u>\$ 489,039</u>	<u>\$ 3,265,225</u>	<u>\$ 729,548</u>
Classified as:					
Current assets	\$ 1,584,131	\$ 1,108,470	\$ 399,644	\$ 3,092,245	\$ 729,548
Restricted assets	68,835	14,750	89,395	172,980	-
Totals	<u>\$ 1,652,966</u>	<u>\$ 1,123,220</u>	<u>\$ 489,039</u>	<u>\$ 3,265,225</u>	<u>\$ 729,548</u>

See accompanying notes to the basic financial statements. 11

CITY OF HARBOR SPRINGS
Statement of Cash Flows
Proprietary Funds
(Continued)
For the Year Ended December 31, 2006

	Business-Type Activities - Enterprise Funds				Governmental Activities - Internal Service Fund
	Electric System	Water and Sewer System	Waterfront	Totals Current Year	
Reconciliation of operating income to net cash provided (used) by operating activities					
Operating income (loss)	\$ 285,893	\$ (127,709)	\$ (27,651)	\$ 130,533	\$ 31,244
Adjustments to reconcile operating income to net cash provided by operating activities:					
Depreciation	146,269	44,733	79,541	270,543	144,028
(Increase) decrease in accounts receivable	47,853	4,073	-	51,926	(657)
(Increase) decrease in inventory	3,938	(189)	-	3,749	-
(Increase) decrease in due from other funds	(7,899)	(12,172)	-	(20,071)	-
(Increase) decrease in prepaid expenses	(5,946)	(144)	4,500	(1,590)	(656)
Increase (decrease) in accounts payable	(65,862)	1,337	6,190	(58,335)	355
Increase (decrease) in accrued expenses	(5,537)	(2,683)	47	(8,173)	841
Increase (decrease) in due to other funds	33,556	261	4,157	37,974	54,092
Increase (decrease) in due to other governmental units	-	8,905	-	8,905	-
Increase (decrease) in deposits	(1,309)	(900)	2,965	756	-
Total adjustments	145,063	43,221	97,400	285,684	198,003
Net cash provided (used) by operating activities	\$ 430,956	\$ (84,488)	\$ 69,749	\$ 416,217	\$ 229,247

CITY OF HARBOR SPRINGS
Statement of Fiduciary Net Assets
Fiduciary Funds
December 31, 2006

	<u>Agency Funds</u>
<u>Assets</u>	
Cash	\$ (3,517)
Receivables:	
Taxes	2,785,777
Water sales	4,004
Due from other governmental units	<u>8,092</u>
Total assets	<u><u>\$ 2,794,356</u></u>
<u>Liabilities</u>	
Due to other funds	\$ 88,822
Due to other governmental units	4,185
Due to County	402,728
Due to School	1,224,671
Due to State	61,877
Due to ISD	475,060
Due to College	400,094
Due to Medical Care Facility	83,606
Due to Cemetery	25,678
Due to Ambulance and EMS	26,145
Other liabilities	<u>1,490</u>
Total liabilities	<u><u>\$ 2,794,356</u></u>

CITY OF HARBOR SPRINGS
NOTES TO FINANCIAL STATEMENTS
December 31, 2006

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The City of Harbor Springs (the City) was incorporated October 6, 1932, under the provisions of Act 279, P.A. 1909, as amended (Home Rule City Act). The City operates under a Council-Manager form of government and provides the following services as authorized by its charter: public safety (police and fire), highways and streets, sanitation, health and social services, culture-recreation, public improvements, planning and zoning, and general administrative services.

The City's financial statements are prepared in accordance with generally accepted accounting principles (GAAP). The Governmental Accounting Standards Board (GASB) is the standard-setting body for governmental accounting and financial reporting. The City's reporting entity applies all relevant Governmental Accounting Standards Board (GASB) pronouncements. Proprietary funds and similar component units apply Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) opinions issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements, in which case, GASB prevails. Pronouncements of the FASB issued after November 30, 1989 are not applied in the preparation of the financial statements of the proprietary funds and similar component units in accordance with GASB Statement No. 20. The following is a summary of the significant policies used by the City of Harbor Springs:

REPORTING ENTITY

These financial statements present the City (the primary government). As defined by GASBS No. 14, component units are legally separate entities that are included in the City's reporting entity because of the significance of their operating or financial relationships with the City. The primary government is required to consider other organizations for which the nature and significance of their relationship with the primary government are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete.

BASIC FINANCIAL STATEMENTS – OVERVIEW

The City of Harbor Springs' basic financial statements include both government-wide (reporting the City as a whole) and fund financial statements (reporting the City's major funds). Both the government-wide and the fund financial statements categorize primary government activities as either governmental or business type. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business type activities, which rely to a significant extent on fees and charges for support. The primary government is reported separately from legally separate component units for which the primary government is financially accountable.

BASIC FINANCIAL STATEMENTS – GOVERNMENT-WIDE STATEMENTS

The government-wide financial statements report information on all of the nonfiduciary activities of the primary government and its component units. As a general rule the effect of interfund activity, such as overhead costs, has been eliminated from these statements. The government-wide focus is more on operational efficiency, the sustainability of the City as an entity and the change in the City's net assets resulting from the current year's activities.

Internal service funds are consolidated into the governmental column when presented at the government-wide level. This is because the principal users of the internal service are the City's governmental activities. The net profit/loss in the internal service funds is allocated to the functional activity (public safety, public works, etc.) based upon usage.

NOTES TO FINANCIAL STATEMENTS – CONTINUED

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

BASIC FINANCIAL STATEMENTS – GOVERNMENT-WIDE STATEMENTS – CONTINUED

In the government-wide Statement of Net Assets, both the governmental and business type activities are presented on a consolidated basis. Due to the full accrual, economic resource basis, all long-term assets and receivables, as well as long-term debt and obligations are recognized. The City's net assets are reported in three parts – invested in capital assets, net of related debt; restricted net assets; and unrestricted net assets. The City first utilizes restricted resources to finance qualifying activities.

The government-wide Statement of Activities demonstrates the degree to which the direct expenses of a given function or segments are offset by program revenues. This Statement reduces gross expenses (including depreciation) by related program revenues, which include charges for services, operating grants and capital grants.

The program revenues must be directly associated with the function or segment. Program revenues include: (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment; and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported as general revenue.

BASIC FINANCIAL STATEMENTS – FUND FINANCIAL STATEMENTS

The financial transactions of the City are reported in individual funds in the fund financial statements. Each fund is accounted for by providing a separate set of self-balancing accounts that comprise its assets, liabilities, fund balances, revenues and expenditures/expenses. The focus of the fund financial statements is upon the determination of financial position and changes in financial position (sources, uses, and balances of financial resources).

Government resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled. The emphasis in the fund financial statements is on the major funds in the governmental or business type categories. GASBS No. 34 sets forth minimum criteria (percentage of the assets, liabilities, revenues or expenditures/expenses of the governmental and proprietary funds) for the determination of major funds.

Governmental Funds

The following is a description of the major governmental funds of the City:

General Fund – The General Fund is the general operating fund of the City. It is used to account for all financial resources except those required to be accounted for in another fund.

Major and Local Street Funds – The Street Funds account for the operation of the street departments. Primary financing is provided by the City's share of state gasoline taxes. State law requires these gasoline taxes be used to maintain streets.

In addition, the City reports the following non-major governmental funds:

NOTES TO FINANCIAL STATEMENTS – CONTINUED

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

BASIC FINANCIAL STATEMENTS – FUND FINANCIAL STATEMENTS – CONTINUED

Special Revenue Funds

Police Reserve Fund – The City performs record keeping functions for this fund while the City Council approves all transactions. Primary financing is through contributions.

Historical Commission Fund – The City performs record keeping functions for this fund while the City Council approves all transactions. Primary financing is through contributions.

Capital Project Fund

Capital Project Fund – The Capital Project Fund is being used to account for the Zoll Street Buildings project to remodel, improve, construct, furnish and equip two existing buildings to serve as a city hall and police department facility.

Proprietary Funds

The focus of the proprietary funds is upon the determination of operating income, changes in fund net assets, financial position, and cash flows, which is similar to for-profit businesses. The following is a description of the major proprietary funds of the City:

Electric Fund – The Electric Fund is an Enterprise Fund. The fund is financed and operated in a manner similar to a private enterprise. The intent is that costs (expenses, including depreciation) of providing electricity to the general public are recovered through user charges.

Water and Sewer Fund – The Water and Sewer Fund is an Enterprise Fund. The fund is financed and operated in a manner similar to a private enterprise. The intent is that costs (expenses, including depreciation) of providing water and sewer services to the general public are recovered through user charges.

Waterfront Fund – The Waterfront Fund is an Enterprise Fund. The fund is financed and operated in a manner similar to a private enterprise. The intent is that costs (expenses, including depreciation) of providing City boat docking and mooring services to the general public are recovered through user charges.

In addition, the City reports the following non-major proprietary funds:

Motor Vehicle and Equipment Fund – The Motor Vehicle and Equipment Fund is an internal service fund. This fund accounts for the cost of acquiring, maintaining and providing vehicle and equipment usage to various City departments.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operation. The principal operating revenues of the Electric, Water and Sewer, Waterfront, and Motor Vehicle and Equipment Funds are charges to customers for sales and services. Operating expenses for these funds include the cost of sales and services, administrative expenses and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

NOTES TO FINANCIAL STATEMENTS – CONTINUED

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

BASIC FINANCIAL STATEMENTS – FUND FINANCIAL STATEMENTS – CONTINUED

Fiduciary Funds

The fiduciary funds are used to account for assets held by the City in a trustee or agent capacity. Since, by definition, these assets are being held for the benefit of a third party (other local governments, private parties, pension participants, etc.) and cannot be used to address activities or obligations of the government, these funds are not incorporated into the government-wide statements.

Agency funds use the accrual basis of accounting, however report only assets and liabilities.

Tax Fund – The Tax Fund accounts for the collection and payment of property tax levies.

West Traverse Township Water Fund – The West Traverse Township Water Fund accounts for the Township's usage of the City's water system.

BASIS OF ACCOUNTING

Basis of accounting refers to the point at which revenues and expenditures/expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made, regardless of the measurement focus applied.

The government-wide statements are reported using the economic resources measurement focus and the full accrual basis of accounting, which incorporates long-term assets and receivables as well as long-term debt and obligations. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met. Expenditures generally are recorded when a liability is incurred.

All proprietary funds, pension trust funds and agency funds are accounted for using the full accrual basis of accounting. Their revenues are recognized when they are earned and their expenses are recognized when they are incurred. Unbilled Water and Sewer and Electric Fund utility service receivables are recorded at year-end.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recorded in the accounting period in which they are earned, as long as they are both available and measurable. Revenues are available when received within the current period or within 60 days after year-end. Expenditures are recorded in the accounting period in which the liability is incurred, as under full accrual accounting. However, debt service expenditures, expenditures relating to compensated absences, and claims and judgments are recorded only when payment is due.

NOTES TO FINANCIAL STATEMENTS – CONTINUED

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

BASIC FINANCIAL STATEMENTS – FUND FINANCIAL STATEMENTS – CONTINUED

ASSETS, LIABILITIES, AND NET ASSETS OR EQUITY

Cash and Cash Equivalents

Cash and cash equivalents are considered to be cash on hand and demand deposits.

Inventory

Inventory is valued at cost, which approximates market, using the first-in, first-out method. Inventory in the Historical Commission Fund consists of books and essays, which are recorded as expenditures when sold rather than when purchased.

Interfund Receivables/Payables

Outstanding balances between funds are reported as "due to/from other funds" on the balance sheet of the fund financial statements and as "internal balances" on the Statement of Net Assets of the government-wide financial statements.

Capital Assets

Capital assets, which include property, buildings, equipment and infrastructure assets (e.g., roads, bridges, sidewalks and similar items) are reported in the applicable governmental or business type activities column in the government-wide financial statements. Capital assets are recorded by the City when the initial individual costs are equal to or greater than the following amounts:

<u>Asset Type</u>	<u>Amount</u>
Land	\$ 1
Equipment	3,000
Buildings & Building improvements	10,000
Infrastructure	10,000

Capital assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

Property, buildings and equipment are depreciated using the straight-line method over the following useful lives:

Buildings	40 to 60 years
Building Improvements	20 to 60 years
Water and Sewer Lines	50 to 75 years
Streets, Curbs and Gutters	10 to 30 years
Electric Lines and Appurtenances	30 to 50 years
Vehicles (Pickup Trucks & Automobiles)	3 to 7 years
Vehicles (Large Trucks and Fire Trucks)	10 to 25 years
Construction Equipment (Front End Loaders)	5 to 15 years
Office Equipment	5 to 7 years
Office Furniture	5 to 15 years

NOTES TO FINANCIAL STATEMENTS – CONTINUED

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

ASSETS, LIABILITIES, AND NET ASSETS OR EQUITY – CONTINUED

Long-Term Obligations

In the government-wide financial statements and the proprietary fund financial statements, long-term debt and other long-term obligations are reported as liabilities. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts are reported as other financing uses.

Compensated Absences (Vacation and Sick Time)

Vacation days not used during the year may not be accumulated for union employees. Nonunion employees may convert unused vacation days to sick leave. Due to contract years differing from the City's fiscal year, unpaid vacation time represents unused, but not accumulated, vacation time. Sick time not used during the year may be accumulated. Upon retirement or death of an employee, he/she or his/her beneficiary is eligible to receive accumulated sick leave pay, up to a maximum dollar amount.

All vacation, sick pay, and other employee benefit amounts accrue when earned in the government-wide and proprietary fund financial statements. Sick and vacation pay are recognized in the governmental financial statements when the time is used.

Fund Equity

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

The City has designated \$70,000 of the General Fund balance as of December 31, 2006 to be used to pay the City's share of a proposed Fire Station to be constructed at the Little Traverse Township Hall site. The City intends to designate another \$17,500 in 2007 for this same purpose. Subsequent to year-end, the City approved paying 25% of this Fire Station, estimated to have a total cost of \$37,500 to \$400,000.

COMPARATIVE DATA

Comparative data for the prior year is not included in the City's financial statements.

NOTE 2: STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Annual budgets are adopted on a basis consistent with generally accepted accounting principles for all operating funds of the City except for the agency funds. Budgetary control is legally maintained at the fund level.

The City follows these procedures in establishing the budgetary data reflected in the financial statements:

NOTES TO FINANCIAL STATEMENTS – CONTINUED

NOTE 2: STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY – CONTINUED

1. Prior to December 1, the City Manager submits to the City Council a proposed operating budget for the fiscal year commencing the following January 1. The operating budget includes proposed expenditures/expenses and the means of financing them.
2. A public hearing is conducted at City Hall to obtain taxpayer comments.
3. Prior to January 1, the fund budgets are legally enacted through passage of resolutions.
4. The City Manager is authorized to transfer budgeted amounts between departments within any fund; however, any revisions that alter the total expenditures/expenses of any fund must be approved by the City Council.
5. Formal budgetary integration is employed as a management control device during the year for the General and Special Revenue Funds.
6. Budgeted amounts are as originally adopted, or as amended by the City Council.
7. All appropriations lapse at year-end.

The General Fund Budgetary information includes administrative charges by the General Fund to various other funds as revenue of the General Fund. They have been offset against General Fund expenditures in the preparation of the basic financial statements. These charges remain as administrative expenditures/expenses of the various funds charged in the basic financial statements.

The City did not have an excess of expenditures over appropriations for the General Fund or its Special Revenue Funds.

NOTE 3: DEPOSITS AND INVESTMENTS

Michigan Compiled Laws, Section 129.91, authorizes the City to make deposits and invest in the accounts of federally insured banks, credit unions, and savings and loan associations which have an office in Michigan. The City is allowed to invest in bonds, securities and other direct obligations of the United States or any agency or instrumentality of the United States; United States government or federal agency obligations; repurchase agreements; bankers' acceptance of United States banks; commercial paper rated within the two highest classifications which mature not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions which are rated as investment grade; and mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan.

The City's deposits and investment policy are in accordance with statutory authority.

Custodial Credit Risk – Deposits. Custodial credit risk is the risk that in the event of a bank failure, the government's deposits may not be returned to it. The City's investment policy limits deposits to certificates of deposit, savings accounts with banks, savings and loan associations, and credit unions which are insured with the applicable federal agency. At year-end, the carrying amount of the City's deposits was \$6,336,032 and the bank balance was \$6,425,480. Of the bank balance, \$410,096 was covered by Federal depository insurance. The remaining amount was uninsured and uncollateralized. State statutes prohibit security in the form of collateral, surety bonds or another form be taken for the deposit of public funds. The City may experience significant fluctuations in deposit balances through the year.

Credit Risk – Investments. At year-end, the City's investment in Proctor and Gamble stock had a fair market value of \$84,833. This equity investment is not in accordance with State law and does not have a recognized credit quality rating as do debt securities. The stock had been a gift to the City, and is part of the Police Reserve Fund.

NOTES TO FINANCIAL STATEMENTS – CONTINUED

NOTE 3: DEPOSITS AND INVESTMENTS –CONTINUED

Pooling of Cash - The City pools cash to maximize its investment return.

Fund	Amount
Primary Government	
General	\$ 1,172,741
Major Street	90,113
Local Street	984,626
Electric System	1,652,966
Water and Sewer System	1,123,220
Waterfront	489,039
Other Nonmajor Governmental Funds	96,296
Internal Service Fund	729,548
Total	6,338,549
Fiduciary Funds	(7,911)
Total pooled cash	6,330,638
Cash not held in pooled accounts:	
Primary government	1,720
Fiduciary Funds	4,394
Total cash	\$ 6,336,752
Unrestricted cash	\$ 6,167,289
Unrestricted cash (fiduciary funds)	(3,517)
Restricted cash	172,980
Total cash	\$ 6,336,752

Restricted Assets

Restricted assets consist of cash restricted for customer deposits and in the Waterfront Fund in accordance with revenue bond indentures. Total restricted assets at December 31, 2006 were \$172,980.

NOTES TO FINANCIAL STATEMENTS – CONTINUED

NOTE 4: PROPERTY TAXES

Property taxes are levied and become a lien on property as of July 1 on the State taxable valuation of property in the City as of the preceding December 31. The City bills and collects its own property taxes and also collects taxes for other governmental units. Collection of other governmental unit's taxes and remittance of them to the units are accounted for in the Agency Fund. Property taxes are recognized as revenue in the year for which they are levied.

The City is permitted by charter to levy taxes, subject to State Headlee and Truth in Taxation provisions, up to \$15 per \$1,000 of taxable valuation for general governmental services and for the payment of principal and interest on general obligation long-term debt. The 2006 State taxable valuation of the City of Harbor Springs totaled \$199,295,115.

The tax rate for the year ended December 31, 2006, was as follows:

<u>Purpose</u>	<u>Rate/Taxable Valuation</u>
General governmental services	6.0047 per \$1,000

NOTE 5: INTERFUND RECEIVABLES AND PAYABLES

The composition of interfund balances is as follows:

	<u>Interfund Receivable</u>	<u>Interfund Payable</u>
General	\$ 191,697	\$ 3,437
Major Street	616	4,580
Local Street	-	3,658
Historical Commission	418	-
Capital Project	-	25,669
Electric	9,380	33,556
Water and Sewer	16,937	261
Waterfront	-	4,882
Internal Service	-	54,183
Fiduciary	-	88,822
	<u>\$ 219,048</u>	<u>\$ 219,048</u>

The interfund balances are primarily for property taxes to be collected in the Fiduciary Tax Fund and remitted to the General Fund over billed equipment rental to be returned by the Internal Service Fund to the General, Electric and Water and Sewer Funds and to close the Capital Project Fund by transferring the residual to the General Fund for related debt payments. .

NOTES TO FINANCIAL STATEMENTS – CONTINUED

NOTE 6: INTERFUND TRANSFERS

Operating transfers are as follows:

	Transfer In	Transfer Out
General Fund	\$ 248,669	\$ 176,280
Local Street Fund	150,000	-
Other Nonmajor Govt. Funds	26,280	25,669
Electric Fund	-	273,006
Water and Sewer Fund	-	20,003
Internal Service Fund	70,009	-
	<u>\$ 494,958</u>	<u>\$ 494,958</u>

The operating transfers are mainly for street improvements and maintenance, debt service, equipment purchases, museum operations, and general City operations.

NOTE 7: CAPITAL ASSETS

Capital asset activity of the City for the current year was as follows:

	Balance January 1, 2006	Additions	Deletions	Balance December 31, 2006
Governmental Activities				
Capital assets not being depreciated:				
Land	\$ 915,890	\$ -	\$ -	\$ 915,890
Capital assets being depreciated:				
Buildings and improvements	3,292,206	-	-	3,292,206
Street, curbs, sidewalks and storm sewers	3,605,766	60,549	-	3,666,315
Office equipment	25,782	20,685	-	46,467
Furniture & equipment	148,364	-	-	148,364
Machinery & equipment	1,412,141	-	130,406	1,281,735
Subtotal	8,484,259	81,234	130,406	8,435,087
Less accumulated depreciation:				
Building and improvements	(283,102)	(67,332)	-	(350,434)
Street, curbs, sidewalks and storm sewers	(3,437,476)	(10,573)	-	(3,448,049)
Office equipment	(17,661)	(10,255)	-	(27,916)
Furniture & equipment	(37,484)	(7,218)	-	(44,702)
Machinery & equipment	(1,009,102)	(118,910)	(130,406)	(997,606)
Subtotal	(4,784,825)	(214,288)	(130,406)	(4,868,707)
Net capital assets being depreciated:	3,699,434	(133,054)	-	3,566,380
Governmental activities net capital assets	\$ 4,615,324	\$ (133,054)	\$ -	\$ 4,482,270

NOTES TO FINANCIAL STATEMENTS – CONTINUED

NOTE 7: CAPITAL ASSETS – CONTINUED

	Balance January 1, 2006	Additions	Deletions	Balance December 31, 2006
Business-type Activities				
Capital assets not being depreciated:				
Land	\$ 314,913	\$ -	\$ -	\$ 314,913
Capital assets being depreciated:				
Buildings and improvements	1,862,718	11,173	1,458	1,872,433
Equipment	6,428,258	17,114	13,923	6,431,449
Subtotal	8,290,976	28,287	15,381	8,303,882
Less accumulated depreciation:				
Buildings and improvements	(925,579)	(83,415)	-	(1,008,994)
Equipment	(3,366,826)	(187,128)	9,835	(3,544,119)
Subtotal	(4,292,405)	(270,543)	9,835	(4,553,113)
Net capital assets being depreciated	3,998,571	(242,256)	5,546	3,750,769
Business-type activities net capital assets	\$ 4,313,484	\$ (242,256)	\$ 5,546	\$ 4,065,682

NOTES TO FINANCIAL STATEMENTS – CONTINUED

NOTE 7: CAPITAL ASSETS – CONTINUED

Depreciation expense was charged as follows:

Governmental Activities

Unallocated	\$ 70,260
Internal service fund capital assets consolidated with the governmental activities	<u>144,028</u>
Total governmental activities	<u>\$ 214,288</u>

Business-type Activities

Electric	\$ 146,269
Water and sewer	44,733
Waterfront	<u>79,541</u>
Total business-type activities	<u>\$ 270,543</u>

Proprietary Fund Type Property, Plant and Equipment

Proprietary fund type property, plant and equipment at December 31, 2006 are summarized as follows:

	Enterprise	Internal Service
Land	\$ 314,913	\$ 36,640
Buildings and improvements	1,872,433	1,156,544
Equipment	<u>6,431,449</u>	<u>1,282,668</u>
Total	8,618,795	2,475,852
Less: accumulated dep.	<u>(4,553,113)</u>	<u>(1,238,930)</u>
Net	<u>\$ 4,065,682</u>	<u>\$ 1,236,922</u>

NOTE 8: DEFERRED CHARGES

Debt issuance cost within the Motor Vehicle and Equipment Fund of \$25,747 relating to the 2004 General Obligation Bonds are being amortized as interest expense using the straight-line method over the 6-year life of the 2006 bonds. Interest expense of \$4,291 was recognized in the current year; unamortized amounts at year-end amounted to \$17,165.

NOTES TO FINANCIAL STATEMENTS – CONTINUED

NOTE 9: LEASE OBLIGATIONS

The City has entered into lease agreements with the Harbor Springs Area Fire Authority for fire protection services. The City uses the land, building, and equipment to provide fire protection services to the constituent municipalities making up the Harbor Springs Area Fire Authority.

The current lease agreements with the Authority call for annual lease payments from the Authority to the City of \$50 for the land and building lease, and annual payments from the City to the Authority of \$5 for the sublease of land and buildings, and \$5 for the lease of fire protection equipment.

The City has a lease agreement with the Harbor-Petoskey Area Airport Authority for airport related services. The City leases real and personal property to the Authority in consideration for those airport services as well as \$1 per year. The lease term of 25 years is extended each year unless either the lessor or tenant gives notice to fix the term.

The City has a lease agreement with the State of Michigan Department of Natural Resources ('DNR') for a parcel of Lake Michigan bottomland where the City's East Dock is located. The original lease terms call for annual payments to the DNR through 2014. Lease rates are adjusted in years ending in "0" or "5". The terms allow for one renewal of 25 years at the City's option. The lease amount for the year ending December 31, 2006 was \$4,961.

The City also has a lease agreement with the State of Michigan Department of Environmental Quality for the mooring fields. The lease fees are 10% of annual mooring revenues. For the year ended December 31, 2006, the lease fees were \$5,876.

The City has entered into a lease agreement with the Harbor Springs Historical Society (Blackbird Museum). The city leases the old Historic City Hall to the society for purposes of a museum. The term of the lease is for 25 years with an option to renew for an extended two years. Rent is ten dollars a year and is payable on May 1.

NOTE 10: DEFINED BENEFIT PENSION PLAN

Plan Description

In March 2005, The City of Harbor Springs began participating in the Michigan Municipal Employees' Retirement System (MERS), an agent multiple-employer defined benefit pension plan that covers all full-time employees and the meter reader of the City of Harbor Springs. MERS was established by the State of Michigan for purposes of providing retirement, survivor and disability benefits on a voluntary basis to the state's local government employees. MERS issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to Municipal Employees Retirement System of Michigan, 447 North Canal, Lansing, Michigan 48917.

Funding Policy

Annual minimum funding requirements are determined via actuarial calculations. The actuarial basis is determined by statute. The City contributes 8.5% of payroll for plan participants, regardless of the minimum funding amount. Plan members are required to contribute any amounts in excess of 8.5% of payroll that are necessary to meet the minimum funding requirements. For the year-ended December 31, 2006, employee contributions were \$49,291. The contribution requirements of plan members and the City are established and may be amended by the MERS board.

NOTES TO FINANCIAL STATEMENTS – CONTINUED

NOTE 10: DEFINED BENEFIT PENSION PLAN – CONTINUED

Annual Pension Cost

For the year-ended 2006, the City's required and actual contributions were \$101,693. The annual required contribution was determined as part of an actuarial valuation at December 31, 2005, using the entry age normal cost method. Significant actuarial assumptions included (a) 8% investment rate of return (net of administrative expenses); and (b) projected salary increases of 4.5% per year (plus a percentage based on an age-related scale to reflect merit, longevity, and promotional pay increases). Both (a) and (b) included an inflation component of 3% to 4%. The actuarial value of the City's assets was determined on the basis of a valuation method that assumes the fund earns the expected rate of return (8%), and includes an adjustment to reflect market value. The City's unfunded actuarial accrued liabilities are amortized by a level percent of payroll contributions over a 30-year period.

Three-Year Trend Information

<u>Fiscal Year-ending</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
12-31-05	\$ 83,058	100%	-
12-31-06	101,693	100%	-

Schedule of Funding Progress

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets (a)</u>	<u>Actuarial Accrued Liability (AAL) - Entry Age (b)</u>	<u>Unfunded AAL (UAAL) (b-a)</u>	<u>Funded Ratio (a/b)</u>	<u>Covered Payroll (c)</u>	<u>UAAL as a Percentage of Covered-Payroll ((b-a)/c)</u>
01/01/05	1,152,172	2,222,610	1,070,438	52%	1,189,208	90%
12/31/05	1,449,457	2,439,149	989,692	59%	1,141,005	87%
12/31/06	*	*	*	*	*	*

* Information not currently available.

NOTE 11: OTHER POST-EMPLOYEE BENEFITS

The City provides post-employment benefits of health insurance to eligible employees. The City funds these benefits on a pay-as-you-go basis as necessary. For the year ended December 31, 2006, there were eight participants. The City's cost was \$117,934.

NOTES TO FINANCIAL STATEMENTS – CONTINUED

NOTE 12: LONG-TERM DEBT

The following is a summary of the City's long-term debt transactions for the year ended December 31, 2006:

	Beginning Balance	Additions	Reductions	Ending Balance	Amount Due Within One Year
PRIMARY GOVERNMENT					
Governmental Activities					
Bonds and notes payable:					
General obligation debt					
2002 Series	\$ 1,050,000	\$ -	\$ 25,000	\$ 1,025,000	\$ 50,000
2004 Series	475,000	-	85,000	390,000	80,000
	1,525,000	-	110,000	1,415,000	130,000
Plus premium on bonds payable	4,346	-	869	3,477	869
Less deferred amount on refundings	(16,505)	-	(3,301)	(13,204)	(3,303)
Total bonds and notes payable	1,512,841	-	107,568	1,405,273	127,566
Other liabilities:					
Compensated absences	32,043	-	8,126	23,917	-
Total governmental activities long-term liabilities	<u>\$ 1,544,884</u>	<u>\$ -</u>	<u>\$ 115,694</u>	<u>\$ 1,429,190</u>	<u>\$ 127,566</u>
Business Type Activities					
Bonds and notes payable:					
Revenue bonds					
1989 Marina improvement	\$ 120,000	\$ -	\$ 40,000	\$ 80,000	\$ 40,000

Long-term liabilities payable at December 31, 2006 is composed of the following individual issues:

\$1,125,000, 2002 Harbor Springs Building Authority General
Obligation bonds due in annual installments of \$25,000 to
\$75,000 through October 1, 2022; interest at 4.00% to 6.00%. \$1,025,000

\$560,000, 2004 Harbor Springs General Obligation bonds
due in annual installments of \$80,000 to \$105,000
through October 1, 2010; interest at 3.00% to 3.50%,
net of premium and deferred amount on refundings. 380,273

Total governmental activities general obligation debt
Compensated Absences 23,917
Total governmental activities long-term liabilities \$1,429,190

NOTES TO FINANCIAL STATEMENTS – CONTINUED

NOTE 12: LONG-TERM DEBT – CONTINUED

Business-Type Activities:

\$450,000, 1989 Marina Improvement Revenue Bonds due in annual installments of \$40,000 through September 1, 2008; interest at 6.95% to 7.00%.

\$ 80,000

The annual debt service requirements to maturity for all general and revenue obligation bonds outstanding excluding premium and refunding deferrals, as of December 31, 2006, are as follows:

Year Ending December 31	Governmental Activities		Business-Type Activities	
	Principal	Interest	Principal	Interest
2007	\$ 130,000	\$ 66,430	\$ 40,000	\$ 5,600
2008	155,000	61,030	40,000	2,800
2009	155,000	54,878	-	-
2010	150,000	48,468	-	-
2011	50,000	41,968	-	-
2012-2016	325,000	166,965	-	-
2017-2021	375,000	76,778	-	-
2022	75,000	3,844	-	-
Total	<u>\$ 1,415,000</u>	<u>\$ 520,361</u>	<u>\$ 80,000</u>	<u>\$ 8,400</u>

NOTE 13: COMMITMENTS

Insurance Commitments

The City self-insures its workmen's compensation and unemployment compensation liabilities through their participation in workmen's compensation and unemployment compensation self-insurance groups.

Entitlement Commitments

- A. During 1979 and 1982, the Michigan Public Power Agency (MPPA), of which the City is a member, acquired an ownership interest in the Consumers Power Company Campbell No. 3 plant, related transmission lines and coal stockpile, and rights to back-up capacity and energy supplies from other Consumer generating units and resources.

The City's entitlement share of the Campbell No. 3 generating capacity is 500 (KW) which specifies minimum annual payments on a "take-or-pay" basis for the generation and transmission capability of the unit, through the year 2012.

NOTES TO FINANCIAL STATEMENTS – CONTINUED

NOTE 13: COMMITMENTS – CONTINUED

Entitlement Commitments – Continued

- B. During 2001, the MPPA, of which the City is a member, acquired an ownership interest in the CT Project No. 1.

The City's entitlement share of the CT Project No. 1 generating capacity is 1,999(KW) which specifies minimum annual payments on a "take-or-pay" basis for the generation and transmission capability of the unit, through the year 2026.

- C. The City also has a take-or-pay contract with the Harbor Springs Area Sewage Disposal Authority for the construction of a sewer system. The control and ownership of the sewer facilities rests with the Authority.

The original 1989 Bonds were refunded in 2004. The faith and credit of the City has been pledged to pay its 63.84% share of the \$370,000 refunding bonds issued by the Harbor Springs Area Sewage Disposal Authority through the year 2009.

- D. In March 2002, the City entered into a contract with the Harbor Springs Area Sewage Disposal Authority for the City's share of the cost of a new wastewater treatment facility and the closure of the Authority's existing lagoon and spray irrigation system.

The faith and credit of the City has been pledged to pay its 39.28% share of the \$5,664,770 of bonds issued by the Harbor Springs Area Sewage Disposal Authority through the year 2023.

The entitlements specify minimum annual payments as follows:

	Campbell No. 3 (A.)	CT Project No. 1 (B.)	H. S. Sewage Authority (C.)	H. S. Sewage Authority (D.)	Total
2007	\$ 48,951	\$ 109,811	\$ 52,967	\$ 141,995	\$ 353,724
2008	48,939	109,703	51,471	141,578	351,691
2009	39,901	109,732	52,987	141,111	343,731
2010	40,128	109,889	-	140,596	290,613
2011	40,257	109,734	-	141,970	291,961
2012-2016	40,220	548,850	-	706,539	1,295,609
2017-2021	-	548,921	-	703,051	1,251,972
2022-2026	-	548,795	-	283,827	832,622
Total payments	<u>\$ 258,396</u>	<u>\$ 2,195,435</u>	<u>\$ 157,425</u>	<u>\$ 2,400,667</u>	<u>\$ 5,011,923</u>

Other Commitments

The City had approved the purchase of a boom truck for the Electric Fund at a cost of \$133,755 prior to year-end. The truck was received in 2007.

NOTES TO FINANCIAL STATEMENTS – CONTINUED

NOTE 14: CONTINGENCIES

The City is currently testing the West Traverse Landfill, which was formerly operated by the City in conjunction with the townships of Friendship and West Traverse, as a possible source of drinking water contamination. However, studies to date have been inconclusive. Thus, no provision has been made for any potential liability related to the landfill.

NOTE 15: RISK MANAGEMENT

The City is exposed to various risks of loss related to torts, theft of, damage to and destruction of assets; errors and omissions; injuries to employees and natural disasters. The City belongs to the Michigan Municipal League Liability and Property Pool, a public entity risk pool currently operating as a common risk management and insurance program for various municipalities throughout the state. The City pays an annual premium for its general insurance coverage. The pool is self-sustaining through member premiums and reinsures through commercial companies for claims in excess of \$500,000 for each insured event. Although the City could be assessed charges beyond the annual premium, the likelihood of receiving such an assessment is minimal. Settled claims have not exceeded coverage in any of the past three years.

NOTE 16: SUBSEQUENT EVENTS

Subsequent to year-end, the City approved paying 25% of the cost of a satellite Fire Station for use by the City and nearby townships, with an estimated total cost of \$375,000 to \$400,000. A road project for Pine Street was also approved in an amount of \$405,231. Additionally, various equipment purchases have been approved totaling approximately \$218,000.

REQUIRED SUPPLEMENTARY INFORMATION

CITY OF HARBOR SPRINGS
Budgetary Comparison Schedule
General Fund
For the Year Ended December 31, 2006

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with</u>
	<u>Original</u>	<u>Final</u>	<u>Amounts</u>	<u>Final Budget</u>
				<u>Over/(Under)</u>
Beginning budgetary fund balance	\$ 1,139,700	\$ 1,285,400	\$ 1,370,891	\$ 85,491
Resources (inflows):				
Taxes	1,270,100	1,275,200	1,275,296	96
Licenses and permits	19,300	9,900	10,394	494
State grants	123,700	117,300	114,335	(2,965)
Administrative fees	412,100	412,100	414,453	2,353
Charges for services	170,100	167,800	166,180	(1,620)
Fines and forfeits	3,000	3,400	3,763	363
Interest	35,000	40,000	55,831	15,831
Other	7,500	25,300	25,656	356
Transfers from other funds	223,000	253,000	248,669	(4,331)
	<u>3,403,500</u>	<u>3,589,400</u>	<u>3,685,468</u>	<u>96,068</u>
Amounts available for appropriations				
Charges to appropriations (outflows):				
General government:				
Legislative	3,300	1,600	1,171	(429)
Manager	114,500	111,400	111,009	(391)
Elections	10,100	10,400	5,172	(5,228)
Accounting	138,500	147,300	137,847	(9,453)
Assessing	58,300	54,200	45,338	(8,862)
Legal services	54,200	87,200	76,771	(10,429)
Clerk	94,000	94,300	91,492	(2,808)
Finance treasurer	54,600	54,100	53,422	(678)
City hall and grounds	129,800	129,600	124,856	(4,744)
Total general government	<u>657,300</u>	<u>690,100</u>	<u>647,078</u>	<u>(43,022)</u>
Public safety:				
Police	548,000	532,000	534,266	2,266
Marine patrol	31,900	22,100	17,490	(4,610)
Fire	199,100	201,800	166,214	(35,586)
Planning	61,400	51,500	57,933	6,433
Total public safety	<u>840,400</u>	<u>807,400</u>	<u>775,903</u>	<u>(31,497)</u>
Public works:				
Cost of labor - sales	1,400	1,600	1,057	(543)
Spring clean-up	36,600	42,400	42,715	315
Leaf pickup	54,600	56,000	45,366	(10,634)
Sidewalks	33,700	28,900	24,710	(4,190)
Parking lots	18,600	21,000	22,427	1,427
Administration & fringe benefits	188,800	156,800	173,690	16,890
Airport activities	5,700	5,800	5,780	(20)
Total public works	<u>339,400</u>	<u>312,500</u>	<u>315,745</u>	<u>3,245</u>

CITY OF HARBOR SPRINGS
Budgetary Comparison Schedule
General Fund
(Continued)
For the Year Ended December 31, 2006

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Over/(Under)
	Original	Final		
Recreation and cultural:				
SK-8 park	46,000	44,500	42,498	(2,002)
Beach	39,300	39,700	38,443	(1,257)
Kiwanis park	5,800	5,400	3,230	(2,170)
Ice rink	28,600	24,400	20,616	(3,784)
Parks and grounds	91,000	83,900	70,538	(13,362)
Deer park	4,000	2,900	1,933	(967)
Tree maintenance	18,700	4,000	2,008	(1,992)
Community promotion	9,800	7,600	7,186	(414)
Total recreation and cultural	243,200	212,400	186,452	(25,948)
Other functions	30,000	40,800	42,310	1,510
Transfers (out)	176,300	176,300	176,280	(20)
Total charges to appropriations	2,286,600	2,239,500	2,143,768	(95,732)
Ending budgetary fund balance	\$ 1,116,900	\$ 1,349,900	\$ 1,541,700	\$ 191,800

CITY OF HARBOR SPRINGS
 Budgetary Comparison Schedule
 Major Street Fund
 For the Year Ended December 31, 2006

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Over/(Under)
	Original	Final		
Beginning budgetary fund balance	\$ 78,500	\$ 82,800	\$ 83,031	\$ 231
Resources (Inflows):				
State grants	152,000	155,000	141,034	(13,966)
Interest	2,000	2,400	3,193	793
Other revenue	-	300	303	3
	<u>232,500</u>	<u>240,500</u>	<u>227,561</u>	<u>(12,939)</u>
Amounts available for appropriations				
Charges to appropriations (outflows):				
Public works:				
Construction	-	5,000	4,923	(77)
Routine maintenance	86,300	74,700	67,150	(7,550)
Winter maintenance	36,600	37,600	25,966	(11,634)
Administration	10,000	10,000	10,000	-
Other	23,700	15,800	9,281	(6,519)
	<u>156,600</u>	<u>143,100</u>	<u>117,320</u>	<u>(25,780)</u>
Total charges to appropriations				
Ending budgetary fund balance	<u>\$ 75,900</u>	<u>\$ 97,400</u>	<u>\$ 110,241</u>	<u>\$ 12,841</u>

CITY OF HARBOR SPRINGS
Budgetary Comparison Schedule
Local Street Fund
For the Year Ended December 31, 2006

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget Over/(Under)</u>
	<u>Original</u>	<u>Final</u>		
Beginning budgetary fund balance	\$ 825,800	\$ 870,900	\$ 871,048	\$ 148
Resources (Inflows):				
State grants	42,100	44,000	42,493	(1,507)
Interest	10,000	30,000	39,641	9,641
Other revenue	100	300	303	3
Transfers from other funds	150,000	150,000	150,000	-
Amounts available for appropriations	<u>1,028,000</u>	<u>1,095,200</u>	<u>1,103,485</u>	<u>8,285</u>
Charges to appropriations (outflows):				
Public works:				
Construction	76,400	71,000	60,549	(10,451)
Routine maintenance	318,900	27,300	15,260	(12,040)
Winter maintenance	24,600	25,300	15,878	(9,422)
Administration	10,000	10,000	10,000	-
Other	24,500	24,500	11,041	(13,459)
Total charges to appropriations	<u>454,400</u>	<u>158,100</u>	<u>112,728</u>	<u>(45,372)</u>
Ending budgetary fund balance	<u>\$ 573,600</u>	<u>\$ 937,100</u>	<u>\$ 990,757</u>	<u>53,657</u>

OTHER SUPPLEMENTAL INFORMATION

CITY OF HARBOR SPRINGS
Combining Balance Sheet
Nonmajor Governmental Funds
December 31, 2006

<u>Assets</u>	<u>Police Reserve</u>	<u>Historical Commission</u>	<u>Capital Project</u>	<u>Total</u>
Cash	\$ 5,754	\$ 49,556	\$ 41,086	\$ 96,396
Investments	84,833	-	-	84,833
Receivables:				
Accounts	-	287	-	287
Accrued interest	22	183	154	359
Inventory, at cost	-	7,606	-	7,606
Prepaid expenditures	-	319	-	319
Due from other funds	-	418	-	418
	<hr/>	<hr/>	<hr/>	<hr/>
Total assets	\$ 90,609	\$ 58,369	\$ 41,240	\$ 190,218
	<hr/>	<hr/>	<hr/>	<hr/>
<u>Liabilities and Fund Balances</u>				
Liabilities				
Accounts payable	\$ 683	\$ 419	\$ 15,571	\$ 16,673
Accrued expenditures	-	469	-	469
Due to other funds	-	-	25,669	25,669
	<hr/>	<hr/>	<hr/>	<hr/>
Total liabilities	683	888	41,240	42,811
	<hr/>	<hr/>	<hr/>	<hr/>
Fund balances				
Reserved for inventory and prepaids	-	7,925	-	7,925
Unreserved	89,926	49,556	-	139,482
	<hr/>	<hr/>	<hr/>	<hr/>
Total fund balances	89,926	57,481	-	147,407
	<hr/>	<hr/>	<hr/>	<hr/>
Total liabilities and fund balances	\$ 90,609	\$ 58,369	\$ 41,240	\$ 190,218
	<hr/>	<hr/>	<hr/>	<hr/>

CITY OF HARBOR SPRINGS
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances
Nonmajor Governmental Funds
For the Year Ended December 31, 2006

	Police Reserve	Historical Commission	Capital Project	Total
Revenues				
Charges for services	\$ -	\$ 2,305	\$ -	\$ 2,305
Interest and investment earnings	11,463	1,917	2,128	15,508
Other	20	857	25	902
	<u>11,483</u>	<u>5,079</u>	<u>2,153</u>	<u>18,715</u>
Expenditures				
Current:				
Public Safety	2,890	-	-	2,890
Recreational and cultural	-	19,937	-	19,937
Capital Outlay	-	-	37,562	37,562
	<u>2,890</u>	<u>19,937</u>	<u>37,562</u>	<u>60,389</u>
Excess (deficiency) of revenues over expenditures	<u>8,593</u>	<u>(14,858)</u>	<u>(35,409)</u>	<u>(41,674)</u>
Other financing sources (uses)				
Operating transfers in	-	26,280	(25,669)	611
Net change in fund balances	<u>8,593</u>	<u>11,422</u>	<u>(61,078)</u>	<u>(41,063)</u>
Fund balances - beginning of year	<u>81,333</u>	<u>46,059</u>	<u>61,078</u>	<u>188,470</u>
Fund balances - end of year	<u>\$ 89,926</u>	<u>\$ 57,481</u>	<u>\$ -</u>	<u>\$ 147,407</u>

CITY OF HARBOR SPRINGS
Combining Statement of Fiduciary Net Assets
Fiduciary Funds
December 31, 2006

	Agency Funds		Total
	Tax Fund	West Traverse Township Water Fund	
<u>Assets</u>			
Cash	\$ 4,394	\$ (7,911)	\$ (3,517)
Receivables:			
Taxes	2,785,777	-	2,785,777
Water sales	-	4,004	4,004
Due from other governmental units	-	8,092	8,092
Total assets	<u>\$ 2,790,171</u>	<u>\$ 4,185</u>	<u>\$ 2,794,356</u>
<u>Liabilities</u>			
Due to other funds	\$ 88,822	\$ -	\$ 88,822
Due to other governmental units	-	4,185	4,185
Due to County	402,728	-	402,728
Due to School	1,224,671	-	1,224,671
Due to State	61,877	-	61,877
Due to ISD	475,060	-	475,060
Due to College	400,094	-	400,094
Due to Medical Care Facility	83,606	-	83,606
Due to Cemetery	25,678	-	25,678
Due to ambulance and EMS	26,145	-	26,145
Other liabilities	1,490	-	1,490
Total liabilities	<u>\$ 2,790,171</u>	<u>\$ 4,185</u>	<u>\$ 2,794,356</u>